

**NCUA Board Member Debbie Matz**  
**CUNA Governmental Affairs Conference**  
**Washington, DC**  
**March 1, 2005**

Thank you! It's so good to be here. I always look forward to participating in CUNA's Governmental Affairs Conference. It's a great opportunity to see so many credit union leaders in one place and to catch up on the wonderful things you are doing to serve your members, although Dick Ensweiler keeps me well informed.

The last time I followed Dick onstage, he was holding a baseball bat! It was last October at CUNA's Future Forum. And as my fellow New Yorkers in the audience know, that's the time of year when we Yankee fans usually enjoy celebrating another World Series victory!

But last October was different. After building a huge lead, the Yankees lost ground to their arch rivals from Boston. And at CUNA's Future Forum, there was a feeling that credit unions might be losing ground to their arch rivals in the banking industry. So Dick was onstage swinging that baseball bat, urging credit union leaders to "step up to the plate."

Led by Dick and the CUNA Board and Dan Mica and the CUNA staff, you have an all-star team going to bat for credit unions. They do an outstanding job covering all the bases in Washington, representing credit union issues before NCUA, Congress and the executive agencies.

But the theme of this conference is not baseball—it's boxing. The logo for this conference features a pair of boxing gloves, and the

information you received urges you to “fight back” and “deliver a one-two punch” to “heavyweight bankers.”

I might not know a lot about boxing, but I know a strong punch when I see one. That’s because New York has an extraordinary tradition of great sluggers, from Mickey Mantle on the baseball field to Gerry Cooney in the boxing ring. It’s safe to say New Yorkers come out swinging!

So in my speech today I intend to honor that tradition by suggesting that credit unions look beyond banks and challenge other, perhaps more menacing, opponents—predatory lenders. These opponents are trying, and in many cases succeeding, to knock out credit unions. And if these other opponents stay outside your line of vision, you could be blindsided.

Before we look at these other opponents, I’d like to step back for a moment and share my perspective on bank attacks. As a regulator, my main focus must remain on issues affecting safety and soundness. So bank attacks may seem out of bounds.

However, a threat to the credit union tax exemption is an issue of safety and soundness. So let me assure you: As you fight to defend your tax exemption, I am in your corner!

From my perspective as a regulator, maintaining credit unions’ tax exemption is critical to protecting safety and soundness!

If credit unions are taxed, the taxes would cut into retained earnings. With no other source of capital, credit unions would lose net worth. Even credit unions that are healthy today, after a few years of taxation, could face Prompt Corrective Action.

Taxation would also undermine the very mission of credit unions. Many credit unions would no longer have enough capital to reach out to underserved people and offer needed new services. As a result, many credit unions would be unable to serve the people who need them the most.

Although taxation may not be imminent, there is no doubt that the threat is real. Hearings are already being scheduled in the House of Representatives to question tax-exempt organizations.

Those hearings will be chaired by the same person who last year questioned the “societal good” of credit unions. Congressman Bill Thomas, Chairman of the powerful House Ways and Means Committee, noted that credit unions “are in direct competition with institutions that pay taxes.” So he asked, “What is the good and worthy cause for which credit unions were given the non-profit, tax-preferred status?”

Chairman Thomas is not the only lawmaker raising questions about credit unions. Other federal and state lawmakers are concerned that credit unions are becoming more and more like banks. Even lawmakers who have supported credit unions for years sometimes pull me aside and say “Tell me again, what’s the difference between credit unions and banks?”

No doubt, the banking industry is lobbying to keep credit unions on the defensive. That’s why you are being asked to use your political muscle to fight back.

But here’s where your other opponents – the check cashers, pawn shops, payday lenders, rent-to-own stores and others enter the ring.

These are the competitors who are making a very profitable living – some would say they are making a killing – by preying upon consumers who are not served by banks or credit unions.

While banks and credit unions are busy fighting each other, these predatory lenders are cornering the market in neighborhoods across America.

Did you know there are more than twice as many predatory lenders than banks and credit unions combined?

Tens of thousands of check-cashers, pawnshops and payday loan outlets charge excessive fees to consumers who need quick cash to survive emergencies. Rent-to-own stores and subprime mortgage lenders lure borrowers into long-term debt at outrageous interest rates that make it almost impossible to keep up with the payments.

So, in countless communities across this nation, predatory lenders are on virtually every street corner. What an unfortunate situation!

- While banks and credit unions are arguing in court over which communities they can serve, predatory lenders are the most convenient financial services for nearly 100 million residents in underserved communities.
- While banks and credit unions are competing over people who already have accounts at insured financial institutions, predatory lenders are roping in new immigrants who find it difficult to establish relationships with banks or credit unions.

But the relationships that predatory lenders establish with consumers are nothing short of abusive. Right off the bat, check-cashers hit them with fees that take up to 30% out of each check. Wire-transfer

agents hit them with excessive fees on both ends of the wire, and take an extra cut on the exchange rate. Every time I think I've heard the most egregious example of how predatory lenders are ripping people off, along comes another one.

Recently I heard a heartbreaking story about how a subprime mortgage lender ripped off a Habitat for Humanity borrower. The home came with a 1% mortgage. But a subprime lender, by offering just \$1,000 in cash up-front, convinced the borrower, a single mother, to refinance – to a rate of 15%. Before long the property was in foreclosure.

All over the country, I hear individual horror stories about predatory lenders. They are ruining people's lives one loan at a time.

But it's not just anecdotal. The impact is widespread. Consider this:

- Mortgages from predatory lenders are more than 10 times as likely to end up in foreclosure. Within the first 4 years of these loans, the foreclosure rate is over 20%! Yet even though they are destroying the American dream for millions of homebuyers, subprime lenders' share of the mortgage market is growing steadily – and it's 4 times larger than the market share of credit unions.
- Predatory lenders are also tightening their grip on the instant cash market. Each year, another 6 million consumers take out a payday loan – but only 1% of them will be able to pay it off and walk away. More than 90% of payday loans are made to borrowers who are forced to refinance at least 5 times per year. That's more than 5 million consumers each year who are caught in a suffocating web of debt.

- And each year, another 12 million taxpayers are lured by the promise of refund anticipation loans. An instant refund advance may sound like “easy money” to taxpayers. But it’s really easy money for predatory lenders! They charge a substantial fee to process each loan application; they charge an additional fee to administer the 10-day loan; and they even charge a fee to e-mail the tax return -- a service that would otherwise be available at no charge. So before these taxpayers actually receive their money, their refunds are reduced by nearly \$2 billion.
- The total financial impact of predatory lending is staggering. With little competition from banks or credit unions, these lenders are draining more than \$200 billion – that’s billion, with a “b” – from underserved consumers every year.

Clearly, these consumers need a champion. And I can’t think of a better champion than credit unions!

I urge you not to sit on the sidelines and watch your potential members get whacked every time they need money. If you don’t stand up to predatory lenders, they will go after your members. They’re already advertising in your field of membership and actively working against you.

Payday lenders have actually targeted credit unions as their “Number 1 Enemy.” The largest payday lending group hired a crisis management company because they say credit unions are working to drive payday lenders out of business. I hope they’re right!

What a great compliment: being accused of providing an alternative to predatory loans!

I encourage all credit unions to compete with payday and other predatory lenders. I believe if credit unions confront predatory lenders head-on, you can knock them out!

They may think that credit unions are the underdogs in this fight. But they don't know you! I have seen the dedication and energy of credit union officials and volunteers. I know that with the strength of your conviction to the credit union philosophy of "People Helping People," you can take on predatory lenders and win!

You don't have to look far for inspiration. Across the country, credit unions are offering powerful alternatives to predatory lending.

For example, in Hawaii, a credit union is beating payday lenders at their own game.

If you were in Hawaii for CUNA's Future Forum, you may have seen many payday lenders advertising in neighborhoods outside the resort areas. Yet there are no payday lenders outside the military base where Windward Community Federal Credit Union is stationed.

This is very unusual! Drive by almost any military base throughout this country, and you'll see predatory lenders waiting to ambush the members of our military who are often young and financially vulnerable.

So why are there no predatory lenders outside the Marine base in Hawaii? Because Windward Community offers small loans with approval in minutes.

It's such a simple solution! The credit union offers the convenience of a payday lender without the excessive fees.

The credit union's small, short-term loans help members survive financial emergencies without falling into a long spiral of debt. Civilians as well as Marines can get affordable loans as small as \$100 when they need extra cash. It may not sound like much, but for many people it's exactly what they need to get by until the next payday.

As important as budgeting and saving is for all consumers, it is even more critical for people with low income. The affordable financial services credit unions offer can make a real difference in the lives of their members:

- During the last tax season, 3 small credit unions -- Union Settlement, Lower East Side People's, and Homesteaders -- fought back against refund anticipation lenders in some of New York City's poorest neighborhoods. The credit unions were part of a consortium that trained 100 volunteers to prepare tax returns. The intent was to ensure that low-income workers claimed all the Earned Income Tax Credits they were due. The credit unions processed 2,600 returns. Filers received \$3.2 million in tax refunds and, in addition, saved \$600,000 in fees because the credit unions prepared the returns free of charge!
- The credit unions were able to provide Volunteer Income Tax Assistance as a result of a partnership between NCUA and the IRS.

These 3 small credit unions have set an extraordinary example which I urge all of you to duplicate. If every credit union offered



Volunteer Income Tax Assistance, I just know that you could take down the predatory lenders who prey upon low-income tax filers!

And if a majority of your credit union's members are low-income, you can even apply for an NCUA grant to provide this service. You can contact our new Office of Small Credit Union Initiatives to learn more about this partnership.

Some credit unions are also using partnerships to fight back against predatory mortgage lenders.

You may recall that a year ago on this stage, I helped present an award to Dan Egan for his outstanding leadership of the New Hampshire Credit Union League. The League formed a statewide partnership dedicating \$35 million for affordable mortgages. Coming from a state with only 30 credit unions, this was a bold commitment!

One of the leading credit unions in this partnership is the very first credit union chartered in the United States: St. Mary's Bank Credit Union.

I am pleased to report that this credit union has put its commitment into action. It is partnering with a non-profit community group -- Manchester Neighborhood Housing Services. Together, they provide down-payment assistance to low-to-moderate income borrowers so they can purchase their first home.

Just as important, borrowers receive up to 100 hours of counseling on life skills, budgeting, and property management. This not only helps members buy their first home, but also keep their home.

The partnership has been recognized as a major success in the revitalization of Manchester's worst neighborhoods.

There are literally hundreds of stories about how credit unions provide alternatives to predatory lending.

Many of these credit unions have shared their innovations as part of the initiative I launched here 2 years ago: Partnering and Leadership Successes, or PALS.

Since then, CUNA and 27 leagues have partnered with NCUA and other credit union groups to co-host 9 PALS workshops. Across the country, nearly 2,000 participants – from credit unions of all sizes and all charters – have come together at PALS workshops. They have shared initiatives that have proven successful in reaching consumers who need access to affordable financial services the most.

I hope that many of you have attended a PALS workshop. And I invite all of you to attend the next PALS workshop, on Thursday, April 28 in St. Louis.

This workshop will focus on “New Markets, New Members, and New Business.” It's an opportunity to hear from officials of other credit unions who have made a real impact in reaching new markets. Their approaches may inspire you to reach new members from all walks of life – and ultimately, gain new business that will strengthen your credit union's bottom line. And like the best things in life, it's free!

So I encourage you to mark your calendars for April 28, and register for this PALS workshop through the NCUA website.

Some of you may remember that at this meeting last year, I unveiled a new website to share PALS Best Practices. Since then, credit unions have posted more than 500 innovative programs on this site!

In its first year, I am proud to say, the PALS Best Practices website received the second-most hits of any section on NCUA's website. It is so gratifying to see credit union officials taking advantage of these opportunities to learn from one another.

One theme that has emerged loud and clear from the PALS initiative is the benefit which credit unions receive from offering alternatives to predatory lending. Offering these services provides an opportunity for credit unions to overcome slow membership growth -- a serious weakness that could threaten the credit union movement. It's a weakness could leave credit unions vulnerable on their balance sheets as well as in the halls of Congress.

Since 2001, credit unions' membership growth has been stagnant at just about 2% a year. This means the vast majority of credit unions' asset growth is coming from existing members. Credit unions cannot safely sustain this pace far into the future.

The reality is: Plants are closing; firms are downsizing; jobs are being outsourced; and existing members are aging. It's inevitable: Sooner or later, your existing members will either retire and move, or die.

For credit unions to remain safe and sound in the future, you will need to attract more new members.

However, you may find it's not very easy to attract people who are already doing most of their business with banks. Once someone has

a relationship with an insured financial institution, it can be hard to entice them to switch.

But when you offer alternatives to predatory lending, the results can be dramatic.

You may find it hard to believe, but:

- When Dow Louisiana Federal Credit Union reached out to an underserved area, their membership grew 30% in one year! And their loans grew 40%! You can ask the credit union's CEO, Jeff Hendrickson, if you don't believe me!
- And remember those 3 small credit unions offering free tax services in New York? Their combined membership grew 20% in just 3 months!

If you help people break free of the grip of predatory lenders, you will bring in new members who will remain loyal to your credit union for life.

These loyal new members will also help you gain momentum in your effort to defend your tax exemption.

Remember -- Chairman Thomas and other lawmakers asked credit unions to demonstrate their "good and worthy cause." What better cause than offering affordable financial services to constituents who are being ripped off by predatory lenders!

When you meet with your lawmakers tomorrow, your challenge is to tell your credit union's story in a way that will have the greatest impact. If you can share examples of how your credit union has

rescued constituents who were being devastated by predatory lenders, you will make a powerful impression!

As every great boxer can tell you, the best defense is a good offense. So when you get back home, challenge the predatory lenders around the corner from your office. Come out swinging!

When credit unions knock out predatory lenders, you will defend your title as the undisputed consumer champion. You will build tremendous strength in your fight against the banks. You will gain needed leverage to protect your tax exemption.

And most important: You will make a positive impact on the lives of millions of new credit union members!

I wish you all the best on your Hill visits tomorrow, and thank you so much for having me here at your “Main Event” today.